FIRST PRINCIPLES
IN MORALITY AND ECONOMICS
on which depend personal well-being and social health and harmony
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VOLUME V APRIL, 1959 NUMBER 4

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Proposal On How To "Experiment" With Socialism In The United States

The purpose of this article is to recommend that in the United States a special kind of thorough experimentation with socialism be adopted. The proposed program could be a blessing to the country as a whole.

* * *

When a business grows to be large, decisions on policy become momentous. The mere size of the operation makes bad decisions costly, and sound decisions profitable.

Imagine an automobile manufacturer who is considering the use of a new air-cooled engine. The engineers of the company declare that their air-cooled engine has advantages over a water-cooled engine, being both better and cheaper. Management is faced with the decision whether or not to switch over to air-cooled engines.

That is a major decision. Manufacturing methods will have to be changed; a large investment will be needed in new tools; the public will have to be educated to the idea of a radiator-less engine; servicemen must be trained to service the radically different car. Finally, will the public buy an automobile with an air-cooled engine? Indeed, what kind of a catastrophy will the company suffer if the design change is too radical — if the proposed new model fails to perform as well as the old, or if the public will not like it?

Imagine the policy makers of the company sitting around a conference table to decide, yes or no. In a sense, the future of the company depends on the decision. If it proves to be an error, the loss in prestige, position, and profit may be fatal. On the other hand, if this new model is a big advance over present models, then what an opportunity!

Big business men, whatever their strengths and weaknesses may be, usually have courage. Except in rare cases, men who rise to the top are not weaklings. But the boldest hold back when the success of their business is to be hazarded by *one* decision — by one roll of the dice, figuratively speaking.

Various decisions can be made in the situation we have imagined: (1) rashly take the chance; (2) back away from the risk; or (3) test the idea in a limited area, carefully selected, and with the experiment closely controlled. If the experiment does not work out well, discontinue it; if it is successful as promised, then (with the test having given the needed assurance) extend it to the whole United States. Probably policy number (3) will be followed. The other alternatives are too hazardous.

* * *

In regard to socialism for the United States it is, as in our radiator-less car illustration, a momentous challenge — shall we here in the United States adopt it or not? If we do, and if it fails, the cost will be terrific. If it succeeds, that will be wonderful.

There are obviously two views in the United States about socialism — one pro and one con — just as there were advocates

Published monthly by Libertarian Press. Owner and publisher, Frederick Nymeyer. Annual subscription rate, $4.00; special for students, $2.00. Bound copies of 1955, 1956, 1957 and 1958 issues, each: $3.00; students $1.50. Send subscriptions to Libertarian Press, 366 East 166th Street, South Holland, Illinois, U.S.A.

in the motor car company of (1) a radiator-less engine and (2) an unchanged, conventional water-cooled engine.

How decide: (1) do nothing, and be tormented about the idea of an opportunity lost? or (2) try out socialism on a national scale and suffer a catastrophy, as some people predict? or (3) gradually mix the two systems on a country-wide basis, that is, impose partial socialistic measures while retaining partial capitalism? This last method of experimentation does not give a clear answer; there will be continued argument whether benefits or penalties are caused by the capitalistic phase or the socialistic phase of the system.

Number (3) is the system presently being followed in the United States, unfortunately. But there is a better system for *testing* socialism and communism in the United States. The purpose of this article is to recommend that method.

* * *

This union known as the United States has 50 states. Each of these is sovereign in matters other than war, foreign affairs, issuance of money, etc. What we need are two states who will be volunteer guinea pigs — one to try out socialism thoroughly, and the other to try out laissez-faire (free) capitalism thoroughly, for a period of maybe ten years. Let us, by that approach, settle definitively which is better for the United States — socialism or capitalism. In the United States we have a favorable opportunity to experiment, because we have (or have had in theory) a truly Federal system, and each state is genuinely *sovereign*.

We should not, however, be happy about nontypical states coming forward as the experimenters. Rhode Island is too small; Maine is not typical; nor Florida, nor North Dakota. We need "mixed" states, those with some balance between agriculture and manufacture. Michigan, for example, might be a good state to experiment with thoroughgoing socialism. Ohio might be a good state to experiment with a genuine return to laissez-faire capitalism. Other states might wish the "honor," or have the required conviction, to be the experimenters. Candidates are needed.

In any event, in the momentous decision of socialism versus capitalism, we are against desperately "rolling the dice" and staking all on theoretical judgment, even our own. We happen to believe, *theoretically,* that socialism is worse than cancer, but others

say that we are wrong. Those who think that should welcome the thorough testing of their own new socialistic proposal. If they admit that socialism has not worked well abroad, but declare it will work better here, let us not risk this whole, great and grand nation. Let those pro-socialist theoretists concentrate in some state, and put their ideas wholly into effect. Let us laissez-faire theorists concentrate in another state. Let us try the two systems for a reasonable number of years.

At the end of ten years the Federal aid program for distressed areas will take care of the victim or victims.

In the end, we would have a more convincing answer than can presently be obtained from nationwide experimentation with a *mixed* economy. The quicker some U. S. state experiments 100% with socialism, the better for all the rest of the states.

Every Man In Economics Is A Dr. Jekyll And A Mr. Hyde Within Himself

Dr. Jekyll And Mr. Hyde

Robert Louis Stevenson wrote an interesting story called *Dr. Jekyll and Mr. Hyde.* These names did not designate two men, but one. In the daytime this man was an honorable physician, Dr. Jekyll, but at night a marauder and thief, Mr. Hyde; a dual personality.

In economics, every man is in a sense a Dr. Jekyll and a Mr. Hyde. He is Dr. Jekyll as a consumer; and he is Mr. Hyde as producer; a dual personality. Only when a man lives in complete isolation, by himself alone, and produces only for his own consumption, is there an identity within him as producer and as consumer. But at once, when there is more than one person involved and when there is division of labor and exchange of surplus products between them, a man's interests as a consumer begin to conflict — or *appear* to begin to conflict — with his interests as a producer. In any kind of *organized* society a man is in many respects separately and distinctly a consumer *and* a producer.

Now if such a man makes his basic decisions on how to "organize" society from the viewpoint of himself *as consumer* he is, in economics, as sound as Stevenson's respectable physician in daytime, as Dr. Jekyll. But if such a man makes his basic de-

cisions on how to "organize" society from the viewpoint of himself *as producer* he is, in economics, as destructive as Stevenson's Mr. Hyde, a prowler and robber in the dark.

The idea can be illustrated in several ways.

A man as member of a labor union is a producer. This same man as head of a family is a consumer. As a producer and labor-union member he decides he wants more money; eventually he strikes to get it, and let us assume that he does. He has "helped" himself as a producer. But he has also hurt himself. The prices of what he produces go up; his cost of living rises. Labor rates are "costs" and must eventually be reflected in prices. (As an aside, it may be mentioned that the idea that labor rates can be increased *at the expense of capital ownership* — and consequently that one can benefit himself as producer without hurting himself as a consumer — is a pleasant idea to coddle in one's mind, but careful reasoning will completely dispel that hallucination. See Böhm-Bawerk's *Control or Economic Law* for the complete argument.)

Experience is proving daily that advancing labor rates can mean increased cost of living. The labor unions are operating as a cat chasing his tail; first, labor rates are forced up, by strikes if necessary to that end; then cost of living rises; then increase in cost of living becomes ground for another increase in labor rates. In this situation, a man's economic policy is controlled by his *viewpoint as a producer.* He is operating like a man who demands — give me what you have and what I want.

It may be thought that the consequences mentioned can be escaped. A man may say: "I will force my wages up *more* than others; then, *I* shall gain." True; what he produces goes up more in price for all consumers than their prices go up for him. But two — in fact all — can play at that game, and they surely will. Men discover that you are endeavoring to "rob" them. They retaliate by attempting to "rob" you. What labor leader has a chance of surviving who does not get wage increases comparable to what other labor leaders get (unless there are insuperable economic obstacles such as competition from substitutable products, or overproduction in an industry)? Under *present* rules, the competitive policy of labor leaders is fully justified. The rules are wrong.

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(2) A retailer may think similarly; he may decide that he will arbitrarily raise his prices 5%; he is looking at himself as producer (distributor), not as consumer. But his customers leave him, unless he has a monopolistic and coercive organization too, which sees to it that other retailers raise their prices equally. Of course, if such a coercive organization does not exist, and if it is not protected by special laws in its special privilege of exploitation, the program of the individual retailer will fail. Others will not raise their prices; they will sell to his customers; he will go bankrupt. The reason is that it was against the self-interest of his customers to buy from him at a noncompetitive price.

(3) A manufacturer is in a similar case. He manages his business to serve his consumers, or he manages it to serve himself. The assumption often is that the most successful manufacturer is the one who gives the least product for the most money. In fact, it is the reverse: the most successful manufacturer is he who improves his methods of manufacture and distribution, thereby reducing his cost, so that he is able to offer the most product for the least money.

It *appears* that a business man offering lower prices and better merchandise does not seem to be motivated by great love for his customers nor by an urge to help them; it appears — and correctly so — that he is endeavoring to help himself. That is true, but in a more important sense it is false. There are *presuppositions* in the mind of this capitalist, profit-seeking business man. First, he avoids coercion of his customers; because, and just because, he leaves them free, he must exert himself to offer them more if possible than anybody else does — more product for less money. Otherwise they will not prefer to buy from him. In that sense, his decisions are fundamentally motivated by his customers' welfare rather than his own. Secondly, he assumes these potential customers will not be motivated significantly by anything else than their self-interest. If he assumed that they did not know what their self-interest is (to get the most for the least), or that they would be negligent about buying something costing more but worth less from some other manufacturer, then what would be the use of offering the most for the least. Obviously, when you leave your potential customer *free*, you in effect put it in his power to make you exert yourself always to offer the most for the least. Your

neighbor is sovereign, not yourself. In this case, you operate as a Dr. Jekyll. If contrarily, you operate as a monopolist, in *restraint* of trade, that is, when you fall back on *coercion,* then you have changed character and are a Mr. Hyde. (Monopoly and restraint of trade are properly prohibited and enforced against business men, but improperly are not enforced against labor unions.)

What Religious Ethics Has To Say About Self-Orientation In Society As Producer Or Consumer

The decalogue of Moses — the well-known Ten Commandments — cannot be abbreviated without irreparable loss, but it is difficult to demonstrate that all of the ten are of equal rank. If the two most important are chosen, one out of the First Table and one out of the Second, then the First and Sixth Commandments probably outrank the others in each group. The first is, Thou shalt have no other gods before Me; and the sixth is, Thou shalt not kill (coerce). This latter commandment is pertinent here.

The *ultimate* recourse of anyone who wishes to exploit his neighbor is the exercise of power, that is coercion. When seduction, theft, fraud and coveting fail to accomplish the purposes of an evil man, his final recourse is to coercion. If prospective victims know that a would-be aggressor can never have recourse to coercion, their will to resist seduction, theft, fraud and coveting is strengthened. They will say to themselves, "If we resist those methods successfully, then we have nothing more to fear." But if they must think differently, namely, that although they resist seduction, theft, fraud and coveting successfully, they must still face a worse and maybe overwhelming coercion, then much of their will to resist may be expected to be lost. *Thou shalt not coerce* is then probably the most important of the *ethical* commandments. The general case of Hebrew-Christian ethics pretty much stands or falls with this ultimate ethical demand — *no coercion* (except to resist evil).

This Sixth Commandment, Thou shalt not coerce, should be controlling in economic matters as in all others. The questions then are: (1) does a man avoid coercion if his ethics are oriented according to his activities as a *producer?;* and (2) does a man avoid coercion if his ethics are oriented according to his activities as a *consumer?* The answer to the first question is, *No;* when a man makes claims for himself *as producer* he becomes a coercer.

The answer to the second question is, *Yes;* when a man limits his making of claims for himself to his activity *as a consumer,* then he avoids becoming a coercer.

These systems are either/or; a man has no escape from making a choice; he is both a producer and a consumer in his own single person, but his *public* policy must be based on his orientation of himself in society in one category *or* the other.

Attempted solutions of this problem are subject to "confusilation" if the person looks at producers and consumers as two entirely different classes, unrelated to each other. *The fact is that everybody is within himself both producer and consumer. As one person he can have his ultimate liberty as consumer or as producer, but he cannot have both liberties. They are inconsistent with each other.*

Now, a man can be inconsistent. He can say something like this: "(1) I want my own way in regard to my production; people *must* accept what I produce at my price; but (2) when I change roles and become a consumer, then I want the rule to be reversed; they must not have the right to coerce me to take what they produce at their price; I demand having my way as consumer when I consume and as producer when I produce." Such rules of action would not be *general* rules. If the rule prevails for one, it should in justice prevail for all, and that in this case involves an impossibility. Only *general* rules are suitable for sound public policies.

If a man insists on having his own way as a producer and is prepared to grant that same privilege to everybody else, then consumers must be *compelled* to accept what is produced. This is violation of the Commandment, Thou shalt not coerce.

If a man insists on having his own way as consumer and is prepared to grant that same privilege to everybody else, then he and they as producers must be prepared to produce what is wanted, or else find no market.

Production is not for production's but consumption's sake. There is no merit in work in the abstract. Work is not good because Scripture alleges God has said that work is a good thing. Scripture presents what it alleges God says about work because work yields products valuable to consumers. If work yielded products valueless to consumers, work would not be praised in Scripture, nor anywhere else.

The Contrasting Answers Of Socialism And Capitalism

The differences between capitalism and socialism can be viewed from many viewpoints. But if we view them from the viewpoint of the subject under discussion — in what should a man's freedom be dominant, as a producer or as a consumer — then capitalism's answer is that a man should "have his way" as a consumer; and socialism's answer is that a man should "have his way" as a producer. The former promotes a free, rich and peaceful society. The latter promotes an unfree, poor and bellicose society (see Walter Lippmann's *The Good Society*).

In economics, the question whether a man within himself should be sovereign as consumer or producer takes the form of: what should determine price, (1) the *cost* to the producer in production (cost-plus), or (2) the *value* to the consumer in consumption (the market)? The socialist answer is that an ethical price must be based on the cost of production. The capitalist answer is that an ethical price must be based on the value to the consumer in his own estimation. These are two irreconcilable ideas. Either capitalism is right and should prevail, or vice versa, socialism.

What Term Stands Opposite To Coercion

The churches appear to be struggling with the term — and the idea — which should be used as the opposite of *coercion.* The churches cannot accept, if they heed the Hebrew-Christian Scriptures, coercion as a principle for the ordering of society, except to restrain recognized internal and external evils. How should the rest of social life be ordered?

The prevailing answer is that the opposite of coercion is *charity.* Many carry the *charity* principle to such an extreme that they declare that if charity (which is really voluntary in nature) does not operate fully, then coercion must be employed to enforce charity and becomes part of it; Peter is to be robbed to pay Paul, in the name of "justice" of some vague kind; and the slogan becomes, From each according to his abilities to each according to his need, which is perfect, coerced charity. *Charity* is the wrong antonym for *coercion.*

Many, too, look upon *competition* as an alternative system, but one that is to be rejected, in part or in whole, because it is a

"warfare," a "cut-throat" system, a "competitive struggle," a "price *war*." But these are metaphors — mere figures of speech — not happily chosen, because competition is not war to destroy, nor struggle to injure, but rivalry to serve consumers who are free — in order to receive their patronage. In a free society he who serves best gets the business, the consumer being sovereign. *Competition* is not the word that describes the system itself, but only the method of that system which stands over against coercion.

Opposite to the evil known as coercion, as a system for organizing society, there must be some "good" which must have its proper name. That opposite — that alternative — cannot be charity, because charity as the principle for organizing society is as great a curse as is coercion. The "good" which is the real antonym to coercion, as the *organizing principle* of society is *cooperation* in the Ricardian sense (see Volume IV, No. 7, pp. 207-224). Of course, the principle of cooperation is not understood unless Ricardo's Law of Association is understood.

Proposal To Outbid Other Politicians

Edmund Burke has called attention to a problem for political leaders in a popular type government, namely, that they would be under inescapable inducements to outbid each other in promises of what they would, if elected to office, be doing for the voters. He described the situation in these words in his *Reflections on the Revolution in France* (Regnery Press, Chicago, Gateway edition; page 346):

> . . . To make a government requires no great prudence. Settle the seat of power; teach obedience; and the work is done. To give freedom is still more easy. It is not necessary to guide; it only requires to let go the rein. But to form a *free government;* that is, to temper together these opposite elements of liberty and restraint in one consistent work, requires much thought, deep reflection, a sagacious, powerful, and combining mind . . . But when the leaders choose to make themselves bidders at an auction of popularity, their talents in the construction of the state, will be of no service. They will become flatterers instead of legislators; the instruments, not the guides, of the people. If any of them should happen to propose a scheme of liberty, soberly limited, and defined with proper qualifications, he will be immediately outbid by his competitors, who will produce something more splendidly popular. Suspicions will be raised of his fidelity to his cause. Moderation will be stigmatized as the virtue of cowards; and compromise as the prudence of traitors: until . . . the popular leader is obliged to become active in propagating doctrines, and establishing powers, that will

> afterwards defeat any sober purpose at which he ultimately might have aimed.

Under that inducement ourselves — to obtain the goodwill of others — we shall outline what we believe will be good for the citizens of the United States. We shall outline a program to establish what Burke designates as a *free government,* in contradistinction from what he decries as mere *government* (tyranny), and what he disparages as mere *liberty* (which here means anarchy).

This program — to obtain popular approval — we propose to call a *Constitutional Welfare Platform.* We have given consideration to the term, *Constitutional Liberty Platform,* but have decided that presently voters are more interested in welfare than in liberty, and so the title we are selecting is: constitutional *welfare* platform.

In this unashamed appeal to the welfare or self-interest of the people we again quote Burke, this time in defense of efforts to please voters; he wrote (page 346):

> Neither do I wholly condemn the little arts and devices of popularity. They facilitate the carrying of many points of moment; they keep the people together; they refresh the mind in its exertions: and they diffuse occasional gaiety over the severe brow of moral freedom. Every politician ought to sacrifice to the graces; and to join compliance with reason [i. e., bend some with the wind as well as be rigorously logical].

We are out to please voters as much as we can. We shall "join compliance with reason."

Nor do we believe that any voter needs to be ashamed to use his own *self interest* as his guide. We approve his self-interest, and we advise him to be guided by it. *Self interest* is the most fundamental principle of society, as the Hebrew-Christian religion, source of the accepted system of ethics in Western society, has taught for 3300 years; (see preceding issues).

The moment that that *assumption,* that people will do what is in their own genuine self-interest, must be abandoned, then all "calculation" collapses, and foresight fails. On what basis, other than that men will be motivated primarily by their self-interests, can people be expected to act in a manner which is *predictable.* If they acted universally on some vague idea of *righteousness* unrelated to self, they would not be knowing what they were doing, and if they themselves were not well-informed on what thy were doing, how could another person predict what they would do. In matters of

human action, the pursuit of self-regarding interests is the "rationalizing" factor. It is, therefore, a form of intellectual innocence to pretend that self-motivation is immoral. It is also a manifestation of intellectual innocence to consider that the pursuit of self-motivated interests *in politics* is immoral.

Self-regarding interests to which reference is made are assumed to be *enlightened* self-regarding interests. A bank robber pursues his self-regarding interests, but by a method which is short-sighted. A swindler pursues his self-regarding interests with zeal, but his means to attain his ends are not *eventually* suitable; he will come to be known as a man who swindles, and people will not deal with him any more.

And so we shall endeavor to cater to the people's self-interest, with that self-interest pursued in a *far-sighted,* moral manner; or in even more universal terms, with that self-interest pursued in an *effective* manner, that is, by *means truly suited to the end.*

When something is declared to be immoral, nothing more can be meant than that the principle involved cannot be made to function *universally* — is not good for everybody to employ. For something to be *moral,* it must be applicable universally in time, place and circumstance, and be for all people.

The self-regarding interests of a man are, of course, not strictly personal, but extend beyond himself to include wife and children; parents, brothers and sisters; friends and neighbors; country; church; fellow members in private associations of all kinds. His values and motivations are *his own* choices but the benefits are not for *himself alone.*

In outlining a Constitutional Welfare Platform, we shall discuss four subjects: (1) *Economic Security;* (2) *Justice;* (3) *Political safety;* and (4) *Prosperity,* for all men without immoral discrimination. Under Economic Security we shall begin by discussing booms and depressions; see later articles in this issue.

An Alternative To Denying People The Right To Vote

People who themselves think correctly on political questions are alarmed when they see unsound and disastrous policies being pursued throughout the world. They sometimes conclude that there will be no future stability except by restricting the franchise — the

right to vote. They retreat to the idea that only *wise* people should vote. We have toyed with that idea ourselves, and although it has merit, it is, basically, a dubious idea; we shall briefly explore it, in order to indicate its dangerous character.

The idea of restricting the right to vote has a distinguished pedigree. Aristotle indicated that government should rest in the "superior parts" of society. Democracies of old did not provide widespread privileges of citizenship. In the oldest democracy whose history is well-known — that of Athens — there were relatively few citizens and a substantial number of slaves. Plato in his *Republic* (whose cardinal points, as everybody should know, included communism, free-love and infanticide) provided for a limited group of rulers at the top who were to be "philosopher-kings." Lord Macaulay, English historian, unsympathetic to participation in the franchise by those who did not give evidence of solidity by owning property, indicated he expected dire consequences from manhood suffrage in the United States, but he did not go into details but rested his case by saying, just wait and see what the Twentieth Century will do to the United States! (See his essay, *Mill on Government.)*

On the other hand, a completely unrestricted franchise has few advocates. Minors and felons are prohibited from voting in the United States. The right to vote is therefore not an indefeasible right.

It is worth while to consider why facile recourse to restricting the right to vote is dangerous. It is easy to say: Smith is not to be permitted to vote, because he is not qualified. That may be a fact, but the excuse for prohibiting him from voting should not be readily accepted.

In this publication there has frequently been critical comment about the idea that each man is his "brother's keeper" in the socialist sense of the term, or in the sentimental sense of the term as used by moralists. That proposition is believed to have no merit and to be more destructive to the recipient of the "loving-kindness" than to the giver.

The law of Moses legislates against injuring the neighbor, in the commandments forbidding violence, adultery, theft, fraud, coveting. All else is *free;* do what you please. Basically the *law* legislates freedom, not altruism (see previous issues).

But (it must be admitted that) the law of Moses legislated more than freedom. It also legislated *charity* — in a limited amount. Unlimited charity would make a man his "brother's keeper." But nowhere in the Old Testament is unlimited charity required. *Charity,* properly understood, is not a disguised substitute of slavery, that is, for making a man a slave under the guise of being obligated to exercise unlimited charity.

Moses also legislated a "gospel." The Mosaic Law was required to be taught. It is true, the Law was not required to be taught to foreigners in a foreign-mission enterprise. The *restriction* of the teaching of the Law to ancient Israel is a questionable phase of Israelitish legislation. But *within* Israel, each Israelite was obligated to help members of his family and other Israelites keep their thinking straight, by teaching the Law to them. In *that* sense, each Israelite was his "brother's keeper," and what he taught was a vital part of the "gospel" in that dispensation.

In the New Testament two features were added to what Moses taught; or more correctly, one thing was *added* to the substance of the Law; the other was a revolutionary clarification of the *extent of the application* of the Law.

What was added to the *substance* of the Law in the form of required teaching was a broader gospel: (1) it included even more clearly than before, salvation by the *mercy of God,* resurrection and immortality. This was a net addition to the content of the "gospel," because the Old Testament is not very vocal about resurrection and immortality, and had only a symbolic ritual to foreshadow the mercy of God. As the Old Testament required each Jew to proclaim the Law, so the New Testament requires the proclamation of the reality, salvation by grace. But the New Testament also was a broader gospel; its gospel was for *all* men and was required to be proclaimed to others than Jews. The substance of the gospel was enriched and its proclamation broadened.

But the really great improvement in the ethical content of the New Testament was the extension of the *application of the Law* in a unique sense. It is *this extension of the application* of the Law which constitutes the revolutionary ethical idea in the Sermon on the Mount and elsewhere in the Gospels. This *extension of the application* of the Law consists herein that a violator of the Law is declared never to forfeit and to lose the protection of the

Law himself. Jewish interpretors of the Law had taught that if *A* violated the Law against *B,* then *B* could retaliate against *A*. In effect, every failure to obey the law became a ground for a new violation of the law by the victim against the first culprit; an "eye for an eye, and a tooth for a tooth", etc. The Law, by such interpretation, eventually did not even control nonsinners; for once there was a wrong perpetrated, then the whole system was in effect annulled by permitting retaliation and vengeance. Christ's teaching, *in a revolutionary sense,* rejected that misinterpretation of the Law. He legislated forbearance, forgiveness, long-suffering, and gave a perfect example of it in His life. He sealed the paramount importance He ascribed to forbearance by His own death. This is the great *extension* in the ethical teaching of Christ. It was not an addition to the substance of the Law, but a declaration of the *universality* of the Law, the Law was not to be abrogated by *B* on the excuse of a prior violation by *A*.

What then is the gospel? Telling people what is necessary to get *all* of their thinking straight. Getting their thinking straight pertains to getting along better in this life, and preparing for the life to come. In ethics (and this is a publication in ethics) men are, by this approach, their neighbor's keeper in a *special* sense; they are required to exert themselves in-season and out-of-season to help get the neighbor's thinking straight. Beyond that point (except for true, that is, *limited* charity) no one is his neighbor's keeper in any sense.

We come finally to the relation between the right to vote and the law of brotherly love. Why are men inclined to wish to limit the franchise only to the wise and the good? Why do they say to other men: we do not want *you* to have the right to vote?

Men approach the right to vote in that manner, maybe because of a prior deficiency in their own conduct: maybe they *have not put forth enough effort earlier to get their neighbor's thinking straight so that they will be happy about his having the right to vote.* Because men have been deficient in preaching the ethical part of the "gospel", they desire to resort to reducing another's influence in politics and society in proportion to his estimated disqualification.

The people of this country vote for legislators. The legislators in turn vote for the kind of laws people want The people, through

their legislators, demand, in regard to money and credit, legislation of a certain kind. Now, if one thinks, as we do, that what people in the United States think today on money and credit is erroneous and eventually catastrophic, two approaches can be made: we can say: (1) deny those people the franchise and the right to vote; let only those people vote who think straight on matters of money and credit, or (2) try to get people's thinking straight on money and credit.

We are making the second approach. We shall begin, in what follows, to explain what might be called the "gospel" (what we think is sound logic and good news) in regard to important questions about money and credit. Instead of saying that people in this country, who are destroying it by unsound money and credit policies, should be prohibited from voting, we submit instead for consideration analyses of money and credit problems, in order to influence their thinking.

Marx's Legitimate Critique Of Booms And Depressions

The yearning for "security", prompted by self-interest, is a wise and worthy motivation. Prudent men are cautious because they have a strong motivation based on fear. Thrifty people are thrifty, because they have a strong sense of insecurity, and by their thrift seek to protect themselves against insecurity. The more calculating a person is, the more obviously he is motivated by a fear-inspired striving for security.

In a society which has an elaborate *division of labor*, jobs are insecure for such reasons as changes in demand, obsolescence of products, exhaustion of natural resources, calamities (so-called acts of God), miscalculations, etc. — and finally because of the *business cycle* — those alternating booms and depressions that everybody knows about and fears with terror. It is this last-mentioned cause of insecurity, general booms and depressions, to which attention is here being given.

Those booms and depressions (also called business crises) are considered to be inherent in the capitalist system. At any rate that was Karl Marx's conclusion. Marx and Friedrich Engels in 1848 wrote *The Communist Manifesto*: we shall quote first what they wrote therein about the rise of the *bourgeoisie* (pages 11-16),

that is, the property-owning classes, or in other words, what they wrote about *Capitalism*. Note the mixture of criticism and praise, and the emotional, anti-intellectual approach. The reader should be wary of accepting this version of reality. Some things written are true, but some are in error. (When reading the quotation, the word *capitalism* can everywhere helpfully be substituted for *bourgeoisie;* for example, in the first line: [Capitalism], historically, has played a most revolutionary part." (Our italics.)

> The bourgeoisie, historically, has played a most revolutionary part.
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> The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors," and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment." It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom — Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.
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> The bourgeoisie has stripped of its halo every occupation hitherto honored and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-laborers.
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> The bourgeoisie has torn away from the family its sentimental veil, and has reduced the family relation to a mere money relation.
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> The bourgeoisie has disclosed how it came to pass that the brutal display of vigor in the Middle Ages, which Reactionists so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades.
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> The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all newly-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is

at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.

The bourgeoisie has through its exploitation of the world-market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures there arises a world-literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of productions; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In a word, it creates a world after its own image.

The bourgeoisie has subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilized ones, nations of peasants on nations of bourgeois, the East on the West.

The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralized means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralization. Independent, or but loosely connected provinces, with separate interests, laws, governments and systems of taxation, became lumped together in one nation, with one government, one code of laws, one national class-interest, one frontier and one customs-tariff.

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground — what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?

We see then: the means of production and of exchange on whose foundations the bourgeoisie built itself up, were generated in feudal society. At a certain stage in the development of these means of production and of exchange, the conditions under which feudal society produced and exchanged, the feudal organization of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to be burst asunder; they were burst asunder.

Into their places stepped free competition, accompanied by a social and political constitution adapted to it, and by the economical and political sway of the bourgeois class.

A similar movement is going on before our own eyes. Modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the condition for the existence of the bourgeoisie and of its rule. *It is enough to mention the commercial crises that by their periodical return put on trial, each time more threateningly, the existence of the entire bourgeois society. In these crises a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity — the epidemic of overproduction. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? Because there is too much civilization, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endangering the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of*

> *new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.*
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> The weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself.

The propositions of Marx and Engels in the foregoing are (1) that capitalism has a wonderful record behind it, (2) that capitalism, however, has an inherent defect, namely, alternating booms and depressions, with the depressions called *crises*, (3) the crises will get worse and worse; and (4) that these booms and depressions are really uncontrollable by capitalism; "modern [capitalism] has conjured up such gigantic means of production and of exchange, [that it] is like a sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells." Obviously, if that is true, the situation is bad.

What are the facts?

1. Business crises are indeed a characteristic feature of modern capitalism. This is an indefensible defect. A business crisis terrifies people, because they do not really understand how it works or why. But crises are not an *inherent* characteristic, but a voluntary and correctible characteristic of capitalism.

2. Capitalism is charged with being the *cause* of business crises, but that cause is nowhere demonstrated by Marx or Engels. It is certain that they did not have the slightest understanding how the real causal mechanism producing business crises worked. They were able to see the *effect*, deplore it, rail against it, and then they ascribed it to capitalism which they hated.

3. The cure which they suggest for the situation is to liquidate capitalism entirely. For that purpose they outlined ten steps; as follows (pages 32-33); again the italics are ours:

> The Communist revolution is the most radical rupture with traditional property-relations; no wonder that its development involves the most radical rupture with traditional ideas.
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> We have seen above, that the first step in the revolution by the working class, is to raise the proletariat to the position of ruling class, to win the battle of democracy.
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> The proletariat will use its political supremacy, to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State, i.e., of the proletariat organized as the ruling class, and to increase the total of productive forces as rapidly as possible.

Of course, in the beginning, this cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production, by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

These measures will of course be different in different countries.

Nevertheless in the most advanced countries the following will be pretty generally applicable:

1. Abolition of property in land and application of all rents of land to public purposes.

2. A heavy progressive or graduated income tax.

3. Abolition of all right of inheritance.

4. Confiscation of the property of all emigrants and rebels.

5. *Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.*

6. Centralization of the means of communication and transport in the hands of the State.

7. Extension of factories and instruments of production owned by the State, the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.

8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture.

9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of population over the country.

10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc., etc.

The italics call attention to a *credit* program of Marx and Engels. The state will directly control *all* credit.

Who controls *credit* now? In the final analysis the state does, but it has some middlemen, the men we know as bankers.

What, in fact, causes booms and depressions, that is, *business crises?* To this the answer is: *VARIATIONS in credit.* All other reasons advanced — overproduction, underconsumption, or what have you — are spurious reasons.

Who controls the *variations* in credit? The bankers. Who gives them the authority to vary credit? The United States government. Through whom? Through the Federal Reserve Board, a government agency.

Now what did Marx and Engels propose? To "centralize . . .

credit in the hands of the State by means of a national bank with State capital *and an exclusive monopoly*" (our italics).

Presently, the privately owned banks in the United States are the most-regulated institutions in the country. People look upon the railroads as being in the process of being ruined by government regulations; it can correctly be affirmed that they are being regulated to a slow death by economic strangulation; (the eventual outcome will be government ownership, as in Europe). But the regulation of the banking business out-does that of the railroads. Banking is the *most-regulated* industry in the United States and really is in a worse position than the railroads. Government regulation, although steadily ruining the railroads is ruining the railroads only; but government regulation of banks (credit) is slowly ruining *the whole economy,* by causing booms and depressions, and thereby terrifying people enough so that they seek to escape to even more government control — more interventionism or socialism. Of all regulation by government, the regulation of banking has the most vicious consequences.

Some people are allergic to penicillin; the more you give them, the sicker they become; give them more and more and they will die. The action of the United States government in regulating money and credit is a penicillin to which capitalism is basically and inescapably allergic. The more that the government regulates credit according to its present pattern, the surer the whole capitalist system will die of a fatal allergy.

What did Marx and Engels propose? More penicillin for the patient who is fatally allergic; indeed, they demanded complete monopoly of credit by the state.

The origin of the business cycle lies in credit; credit (as will be explained) finds its origin in state action; and so it is the state which causes business cycles. Marx's and Engels's program consisted in giving even more power to the present source of all the trouble.

Two Kinds Of Credit — Credit Available By Brokerage And Credit Available By Right To Create Fiat Credit

The term *credit* needs definition. It has, at least, two meanings. Unless a distinction is made between these two meanings

there will be confusion in all thought on money and credit.

Arbitrarily, we shall describe one kind of credit as *brokeraged credit*. Assume a man goes to a bank to borrow $1,000, and that the bank loans him the money. From where does the money come? Suppose another man has just saved $1,000 and has deposited it in the bank in a savings account. The banker will be paying the saver interest, and will of course wish to put the money to work as soon as he can. The banker is a broker between saver and borrower. He must be paid for those services. He pays himself by charging the borrower 6% interest, and paying the saver 3%. So much for the *financial* transaction.

What happens behind the scenes in the world of goods rather than in the world of money or credit? The saver curtailed his expenditures by $1,000. He reduced demand for labor and material by not buying temporarily.

But the saver's reduction in demand is balanced by the increased demand of the borrower. The latter wishes to spend $1,000 more than his income. By borrowing the $1,000 he is enabled to do so.

Everything is in balance. This brokeraged credit is a wonderful thing. It helps the saver, the borrower, the banker; it neither increases nor decreases demand for labor or goods but only transfers it. And so it just *cannot* contribute to booms and depressions.

It might be argued that the activities of savers and borrowers do not always balance each other off perfectly; but there is a quick correction of that *in a free market*. Suppose people are saving too much; the banker as broker cannot find borrowers to use the money. A banker cannot be in business for love (which is something to be profoundly thankful for), and he will refuse to pay 3% interest to savers for money he cannot lend. He will reduce the rate to 2%. Then savers will save less. Next, the banker will charge maybe only 4% interest to borrowers. There will be more borrowers, then. Soon saving and borrowing will again be in balance. The purpose of variations in the interest rates is to strike a balance between saving and borrowing.

So much for brokeraged credit, an admirable economic institution.

The second kind of credit we shall call *fiat credit*, or created credit. In this case there is no saver in the picture at all. Then,

from where can the credit money come? In this case, from the banker. He is authorized by law to *create* money. He is equivalent to an authorized counterfeiter. He is authorized *by law*. He is in fact compelled, if he is to stay in business and be competitive to other banks, to issue fiat credit. There is a profit to be made from fiat credit, and the banks all use the privilege, and the privilege has been utilized up to the point that no bank can survive unless it also puts out fiat credit. The banks are not to be blamed, but the people who vote for legislators, who in turn pass credit laws as the people want. It is the *voters* who are responsible for fiat credit.

Fiat credit is based on gold reserves. Gold is considered to be the best *money* that exists. If a bank has $1,000 in gold, it is authorized by law to put out more than $5,000 of fiat credit. The important thing then for a would-be banker is to acquire gold, and to get a bank charter to issue fiat credit. Let us go back to our original interest rate computations. On $1,000 at 6% the bank collected $60 interest in a year. It paid the savings depositor 3%, or $30 a year. The gross margin for the bank was $30, which it could use to pay its operating expenses and presumably retain some as profit.

But in the case of fiat credit the operation is far more profitable. First, the $1,000 of gold belongs to the bank, and in a sense is idle. On the $5,000 of fiat credit 6% interest can be charged. That amounts to $300 a year. Without going into all the intricacies involved, this fiat credit privilege of banks is obviously a big source of income to them.

This system is known as a *fractional reserve banking system.* Behind the fiat credit granted there is a reserve which is only a fraction of the credit granted; hence the term, fractional reserve system.

The question inevitably arises: how did this system come into existence? It grew up by custom, but a fatal one. When banking as we understand it today first developed in England, the basic money metal was silver, the pound sterling. Silversmiths did the smelting of silver and were the natural custodians of silver stock. They became the first "bankers." Merchants left silver on deposit in the vaults of silversmiths. When a merchant had to pay for

something, he gave his creditor an order on his silversmith to pay out silver. When a merchant received silver he sent it to his silversmith for safekeeping and refining. Eventually, merchants shortcut as much as possible the physical transfer of silver metal by passing out or accepting receipts of the silversmith. If the silversmith gave *A* a receipt acknowledging that *A* had made a deposit of 10 oz. of silver, and if later *A* was required to pay *B* for something worth 10 oz., then *A* simply gave *B* the receipt of the silversmith by which *B* could collect from the silversmith. *The receipts became money.* Mere paper became money, *as long as it was trusted.*

The silversmiths eventually discovered — and this was catastrophic — that they always had silver on hand. The *float* of receipts was such that silversmiths never had to cash all their receipts at once. And so the *dishonest* practice arose of silversmiths putting out more receipts than they had silver! They "counterfeited" silver receipts. That fatal practice has become incorporated into the banking systems of the world. As the silversmiths, originally by subterfuge, had only a fractional reserve of silver against outstanding receipts, the banks of the United States are authorized by law to carry only a small fractional reserve of gold against outstanding fiat credit. The banks in the United States are authorized to have more than five times as much "receipts" outstanding as they have gold!

What happens behind the scenes under this system, in the world of goods and labor?

First, there was $1,000 of gold mined, let us say, by a gold prospector. He could buy $1,000 worth of goods or labor for it. But he "saves" it and sells the gold to a bank. They give him money of some kind for it, no matter here what kind. The bank now owns $1,000 in gold.

The miner probably goes out and spends his $1,000 on new equipment for an expedition into the mountains for more gold. He buys goods and labor. His purchases of labor and materials "balance" the gold buried in the bank.

But the banker can loan $5,000 of fiat credit money on the basis of the $1,000 worth of gold. Here is $5,000 of *new* purchasing power. Borrowers come in. They finally are loaned all the $5,000, and they go out into markets to buy $5,000 worth of goods and labor.

What now happens is that there is a boom. All these borrowers are *new* buyers. They do not offer goods in exchange for goods they buy. They offer instead this easily acquired fiat money. The supply of goods remains the same, but the supply of money has been increased. The *new* buyers jostle out the old buyers to some extent. Previously demand and supply of goods versus money were in balance. Now the balance is disturbed by there being more money because of this fiat credit. Buyers get nervous and start bidding up prices on goods. Sellers begin to make more profits. They, fallaciously, look on the phenomenon of more money as being a case of more goods, and consequently greater prosperity. And so they expand plants, buy excessively, and say to themselves, we never had it so good.

But this boom originating in fiat credit money is an ambush. Clearly there was a surge in demand when the fiat money was created. In regard to this there are only two prospects; the surge will be either temporary or permanent. If temporary, then the "expansion" will collapse and there will be a genuine depression. Even if the boom lasts long enough to appear to be permanent, those who expand will discover that the apparent prosperity is not real, but that nothing happens except that prices continue to go up. You will not have prosperity, but pseudo-prosperity, namely, inflation.

There is a limit, set by law, to the expansion permitted by fractional reserve banking. Presently, banks must hold gold in the amount of one-fifth or one-sixth of their fiat credit outstanding. These are their gold reserves. Once the reserve limit has been reached, the banks cannot issue more fiat credit by *creation* of fiat credit, but can only *substitute* a new credit for an old. If there is a boom up to the time the reserve limit is reached (or until the banking authorities become alarmed *before* that point is reached), then, when the fiat expansion slows, ends, or reverses itself, there is inescapably a depression.

A simple illustration should suffice. Assume ten people in a society. They buy $100,000 a year on a non-inflationary (that is, non-fiat credit) basis. Everything is in balance. Each consumes on the basis of what he produces himself, or exchanges freely for what others produce. Nobody is robbing anybody else of goods. In this stable economy, without booms or depressions the law (let

us assume) is changed to permit the injection of $20,000 of new fiat credit. Not one bushel more of wheat, nor one yard more of fabric, nor one pound more of steel has been produced ; but two men (of the ten) each have double the old amount to spend; instead of $10,000 they have $20,000. What will they do? They will quietly buy up with their extra $10,000, $20,000 worth of goods that the others otherwise would have bought. They "rob" the other eight. In the process, the others will discover that two of their number, not having produced a whit more, are literally robbing them (because the two are buying with their extra $10,000 each). In order not to "get left out" the others begin bidding up prices. In fact they all begin to bid higher. But in the end, the two have robbed the other eight significantly.

But these two must pay back the fiat credit, say in the second and third years thereafter, at $5,000 a year each. Then the fiat credit, we assume, is cancelled by not being renewed. Now what happens? Buying power declines *below normal* by $10,000 each year. What is produced in goods will not be saleable any more at the current prices. Either merchandise will be unsold, or prices will have to drop. Here are the purchasing power figures by years:

Normal year (without fiat credit)	$100,000 — normal
Fiat credit-extension year	$120,000 — boom
First Fiat credit pay-off year	$ 90,000 — depression
Second Fiat credit pay-off year	$ 90,000 — depression

The $120,000 year is what people call a boom year; the $90,000 years are what people call depression years. This society of ten men would have been better off if they had never had the $20,000 fiat credit. The fiat credit did not enlarge their market; it only made it unstable.

The explanation of booms and depressions is as simple as that, but all kinds of incidental features obscure this fundamental fact. It should be emphasized that increases in fiat credit *always* create *booms;* decreases in fiat credit *always* create depressions.

But the people of the United States love fiat credit. We shall later give some examples.

Bankers and business men have never been able to keep *fiat credit* on an even keel. At one time they are cautious and reduce fiat credit. At another time they are optimistic and increase fiat

credit. This instability is innate in the character of fractional reserves, as we may show sometime.

The banks can easily get themselves into a position where they have no freedom of action any more in regard to fiat credit. The closer they get to those basic reserve points, the closer they are to being obligated to stop the expansion of fiat credit, and thereby ending the boom, regardless of their inclinations. They are at the end of the fiat credit rope.

It is not true that booms are good and depressions are bad. Both booms and depressions are bad. The causes of the boom underlie the causes of depression. The people of the United States will never get rid of depressions until they first discipline themselves so that they do not yearn for and obtain booms for themselves.

The theory underlying fractional reserve banking is based on the premise that theft is not an unsound policy. Morality teaches the contrary. And so does good economics. The acceptance of the principle of fractional reserve banking is not something that the present-day bankers wickedly invented. They inherited it. They do not appear to be aware that it is morally wrong. We can give examples of devoutly religious men who accepted the fractional reserve banking system, naively, although they were famous bankers as well as Christians. They never challenged the presuppositions underlying what was commonplace in banking for them.

But the socialists have challenged business crises. They are right in doing so. However, their cure is worse than the present evil which is admittedly very bad.

Examples Of Arguments For Fiat Credit

To prove mathematically as was done in the foregoing, beyond logical doubt, that variations in fiat credit are the cause of business booms and depressions nevertheless fails to convince people. They have a firm opinion that fiat credit is a blessing. We shall cite examples, one of which occurred in January of this year, and the other this month.

1. In January we were assigned seats in the dining room of a Bahamian hotel where a big convention was being held. Four shy young people came over and sat at the same table. We introduced

ourselves as Chicagoans. They introduced themselves as Canadians, from a village in French-speaking Canada. The men, who were brothers, were retail dealers in heavy equipment; the women were their wives. The maximum age maybe of any of the four was 35. The youngest woman was maybe 25. One of the men did not speak English; the older brother and the two women did.

People in French-speaking Canada are in politics generally members of the Liberal Party of which Mr. St. Laurent, a distinguished French Canadian, has until recently been head. To make conversation, we asked them about their political affiliations. They declared themselves to be Liberals. But when we asked how they had voted in the latest election (which went against the Liberals), they said they had voted Conservative, for Diefenbacher's party. We expressed astonishment.

Why had these four people, traditionally Liberals, voted Conservative? When we asked, we were given the answer by the younger woman. She said: "We voted for the conservative candidates because they are good for business." We asked why. She answered, "Under Diefenbacher it is easier to finance the sale of industrial equipment; and so we can do more business; we are making more money."

This sharp-witted young French-Canadian woman was of course referring to fiat credit. According to her, the more a government promoted fiat credit, the better that government was.

This gave me an opportunity to present the argument against fiat credit, as outlined in the previous article. The logic of that is unassailable and the reasoning is drum-tight. But the young woman was wholly unconvinced.

This was her rebuttal: "We are now able to sell the equipment only because we can get the credit, which we could not get previously. The buyer of the equipment puts it to work, *and the equipment earns enough money to pay off the loan.* The equipment pays for itself; how can credit for that purpose be bad?"

2. Last week I was riding a commuters' train home. At an inbetween station a man maybe 40-45 years old came in and sat next to me. Seeing that I was reading a book, he said with a grin, "That looks like a substantial book that you are reading." (Mises's

Theory of Money and Credit, which name he could read in the running heads of the open pages.)

Not being disposed to be responsive to conversation from strange fellow travellers, I made some noncommital remark in order to shake him off, but it did not work. Obviously, he wished to talk. My next defense was to question him: who was he, where did he live, etc. He was a chemist, living in a fashionable suburb up the line.

He volunteered that *credit* was a wonderful agency for good for society. I concurred with him, if he meant brokeraged credit (as explained in the preceding article), but dissented if he meant fiat credit, which I also defined. But he disagreed. Strangely enough, he argued exactly as the French-Canadian girl had argued at the convention in the Bahamas. He said: "You can build a chemical plant with credit, *which will pay for itself.*"

I decided to chip around the edges first, and asked him about fiat credit for purposes of consumption rather than production. "If a man," so I argued, "has the money to buy a Chevrolet, but wants a Cadillac, and borrows fiat credit to buy the expensive car, which produces no wealth and does thereby not pay for itself, then what yould you say about such fiat credit? Then, would not the creation of the fiat credit produce a temporary surge in purchasing, which had to be compensated by a corresponding reduction to below normal purchasing when the fiat credit was being paid off? There are, you must admit, no earnings from fiat credit for consumption goods as distinguished from production goods."

But he was unconvinced; he said: "Fiat credit to buy consumption goods, such as an expensive automobile, would stimulate employment, which would be a good thing."

That ended the conversation because the train had come to the station where I had to get off.

Here are two cases illustrating the remarkable confidence people have in fiat credit as a boon to society. When these people vote on credit problems, they undoubtedly vote for the wrong policy. What is the solution to the problem: (1) deny them the right to vote? or (2) try to educate them on what really happens in the case of fiat credit, so that they will abandon their plausible fallacies?

Probably, most of the intelligent citizens of the United States consider fiat credit to be as necessary a saviour for present-day economic society, as devout Christians look to a Saviour for the life to come. But fiat credit is a false saviour.

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It should be clearly recognized that not only rabble-rousers and anti-property agitators demand fiat credit, but also shrewd and respected business people. They all demand fiat credit, that is, *the right to engage in fraud.*

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The foregoing articles are preliminary to recommendations to be made on how to remove the cause of booms and depressions. Such recommendations will be part of the *Constitutional Welfare Platform.* Readers will sense that under *welfare* it is proposed to present economic planks in the platform; and under *constitutional,* political planks. In economics, recommendations will be based on the ideas of Ludwig von Mises; in political matters, on the ideas of John C. Calhoun.

Knight's Critique Of The Prevailing Protestant Idea About Love

Exaggeration of the meaning and requirement of *love* is characteristic of present-day Protestantism. The classic expression of this exaggeration is in Bishop Anders Nygren's book, *Agape and Eros,* where *agape* (one of the Greek words for love) is defined as being necessarily nondiscriminating in the selection of objects; and as being independent of the merit of the object; the the expression is: *agape* must be *"unmotivated."*

Nygren has had so much influence on fanaticism about love, or has so sensitively reflected the climate of current Protestant thought, that his concept of *agape* permeates nearly all protestant theory concerning private and public ethics. Nevertheless, the doctrine is (unintentionally of course) sanctimonious and ridiculous, as has been indicated in earlier issues.

Professor Frank H. Knight, internationally-known economist at the University of Chicago, is joint author with Thornton W. Merriam of a book entitled *The Economic Order And Religion* (Harper & Brothers, New York, 1945). The book presents a debate; Merriam is a religious liberal and represents the viewpoint

of the social gospel. Knight approaches ethical problems from the viewpoint of economic liberalism. We are unable to agree with the theology of Merriam, or the general scepticism of Knight, but in the field of ethics our views agree with Knight's. He writes (pages 34-5):

> The Christian view holds that universal love is the will of God for man and hence the duty of man. This logically excludes intolerance, but in so doing it raises equally serious difficulties for theistic ethics. Completely undiscriminating love is clearly without significance for action, and it is doubtful whether it is defensible as right, or is possible, or even intellectually conceivable. Human love is certainly discriminating and selective. For man, or God, to love equally and in the same way everything which exists or will exist seems to be practically identical with loving nothing. Thus the religious attitude in the moral life runs into a dilemma. When men take religion seriously, they incline either toward intolerance and fanaticism or toward a purely mystical, contemplative love of God. In this attitude, one may either love in a similar mystical fashion the whole world of nature and man, as the works of the loving God, or he may hate or despise the actual world, presumably as expressing an evil or negative principle, refuse responsibility and withdraw into the life of the spirit. The loving attitude is doubtless abstractly preferable to that of hating, but there is no visible difference for conduct; both eliminate selective choice and responsible action and destroy the moral life.

Knight's critique, that "completely undiscriminating love is without significance for action, and it is doubtful whether it is defensible as right, or is possible, or even intellectually conceivable," is (as we see it) a correct conclusion, couched in mild and polite language. Protestantism needs nothing so much as a purging of its sanctimony about *agape*.

LIBERTARIAN PRESS
366 East 166th Street
South Holland, Illinois, U.S.A.

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